



## Housing Prices Are Out of Control: Toronto Average Reaches \$1.1 Million

### Description

Far from the 18% decline predicted by the Canada Mortgage and Housing Corporation (CMHC) in 2020, the Canadian housing market is booming and hitting new all-time-high figures. Many experts and analysts expected the pandemic to clip the wings of the high-flying housing market. Instead of stumbling, Canadian housing is flying even higher.

Many parts of Canada are seeing strong sellers' markets develop, despite the economic fallout from COVID-19. Buying homes for [substantial long-term returns](#) as investments have been a common practice. It might not be the best thing to do right now. The massive home price growth is causing concerns, and economists all over Canada are raising red flags.

### Soaring sales in Toronto

Toronto is Canada's largest housing market segment, and it saw another month of record-breaking sales and price hikes in March. More than 15,600 property sales took place during March in the Greater Toronto Area (GTA), representing a 97% jump on a month-over-month basis. The Toronto Regional Real Estate Board (TRREB) noted that sales in the second half of March were up 174% from the same point last year.

The average selling price for homes in GTA also climbed 21.6% year over year to climb to almost \$1.1 million. Active listings slumped by 0.7% during this time. The lack of new listings and increasing demand are contributing to rising prices, along with other factors.

### Growth driver for GDP

Economists at **Canadian Imperial Bank of Commerce** have said that the recent price increase for homes in Canada could lead to the speculation about further price hikes. An economist from **Royal Bank of Canada** said that rising prices often lead to speculative activity in the market, adding more fuel to the fire for the already hot market.

It is no secret that the stronger-than-anticipated housing market has been a primary driver for the Canadian GDP for a long time, and it is one of the main growth drivers for the first financial quarter in 2021.

## Interest rates remain the same for now

The Bank of Canada anticipates that inflation will come back down to a more comfortable zone of 2% in a couple of years. The key interest rates will likely remain near their historic lows until the economy can recover. The central bank has warned that localized outbreaks of the novel coronavirus could restrict the economic recovery.

The Bank of Canada cut interest rates three times during March last year with the onset of COVID-19. Maintaining historically low interest rates allowed credit to flow and household expenses to ease. With greater household savings, people spent less on discretionary expenses but increased spending on buying homes by taking advantage of the low interest rates.

## Create stable passive income

It may make sense if you want to capitalize on increasing home prices for investment returns. Unfortunately, buying an investment property in this market could be a risky proposition. While it is unclear whether a major correction will take place, housing prices are in a dangerously high region.

You can also take advantage of the real estate market by investing in a real estate investment trust (REIT) and becoming a lazy landlord. **Crombie REIT** ([TSX:CRR.UN](https://www.crombiereit.com/)) is a classic choice for lazy landlords to generate passive income through real estate.

Crombie is a company that owns and operates over 280 commercial and residential properties across high-traffic urban and suburban markets. It is a passive-income machine that is up 12.65% on a year-to-date basis at writing.

Its diversified portfolio of high-quality properties allows Crombie to generate substantial cash flows that it uses to fuel its growth and pay unitholders their dividends. Trading for \$15.91 per share, Crombie makes for a more accessible way to capitalize on the real estate market than the massive upfront cost of buying a home.

## Foolish takeaway

The housing market is in a strange place. The pandemic-induced shutdowns created pent-up demand, but a buying spree as restrictions were removed have driven prices sky high. There are more buyers than sellers in many regions, and it could be creating one of the most substantial bubbles in the housing market.

Investing in a house in this market comes with a high entry barrier and significant risk if there is a correction across the board. REITs like Crombie could make a [safer investment for investors](#) interested in real estate.

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## TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)

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